peach state
FEDERAL CREDIT UNION
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April 28, 2014

Mr. Gerard Poliquin
Secretary of the Board
National Credit Union Administration
1775 Duke Street
Alexandria, Virginia 22314-3428

Ref: NCUA Risk-Based Capital Proposed Regulation

Dear Secretary Poliquin:

On behalf of Peach State Federal Credit Union, I am writing to comment the proposed regulation concerning the Risk Based Capital Proposal. We are a federally chartered credit union with over $265 million in assets and 40,000 members. Originally founded to serve those from the education sector, we now serve many other select employer groups in the area. We are proud to support our community by providing scholarships for college, sponsoring a community theater, developing educational programs for youth camps, and providing mortgage financing to veterans through Purple Heart Homes.

While Peach State supports the vision for a financially sound credit union system, we do not believe this rule is necessary, nor is it properly structured to measure capital adequacy. The timing of this proposal is questionable. We are emerging from one of the worst economic downturns since the Great Depression, and the credit union industry was impacted on a much lower scale than other financial institutions. The continued success of the credit union industry should serve as proof that the current capital measures are serving their purpose. There is a growing body questioning the effectiveness of risk-based capital, with many refocusing on the leverage ratio as the most effective measure of capital adequacy. The Dallas Federal Reserve Bank recently published an article that suggests there is no evidence that a complex ratio enhances the ability to identify failure and is any better than a simpler ratio.

We believe the rule was intended to be modeled after banking rules outlined in BASEL III; however there are numerous inconsistencies that unnecessarily impact credit unions more negatively than banks that are less than $15 billion in assets. Some of the more glaring differences include penalties for higher concentrations of mortgage and business loans, as well as penalties on longer-term investments. The only rationale for imposing heavier risk weightings on mortgage and business loans would be if credit union borrowers were somehow more risky than bank borrowers, which is not true. The risk weights are also inconsistent to an objective measure, as investments are weighted for maturity, but not much for credit risk, while mortgages do not take into account maturity, interest rate adjustments or loan to value.

Along with the unfavorable treatment compared to banks, we strongly object to Section §702.104(b) which grants examiners the ability to override the rule and require additional capital based upon their subjective judgment. This provision essentially undermines the entire risk-based capital rule, and makes it even tougher on management to "play by the rules" when an examiner can unilaterally decide the rules need to be changed.

We strongly encourage NCUA to carefully review this proposed regulation, listen to our concerns and ask yourself if this rule is really necessary for our cooperative system in light of our recent history that indicates otherwise. If you do believe it to be necessary, please adjust the weightings to be in line with those of BASEL III.

Sincerely,

Michael F. Santoro II, CFO
Peach State Federal Credit Union